

Message Text

CONFIDENTIAL

PAGE 01 BRASIL 06073 01 OF 05 041036Z
ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 DOE-15 SOE-02 AGRE-00 /110 W
-----093048 041045Z /11

P 031240Z AUG 78
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC PRIORITY 8515
INFO AMEMBASSY BOGOTA
AMEMBASSY GUATEMALA
AMEMBASSY KINGSTON
AMEMBASSY LIMA
AMEMBASSY MEXICO
AMEMBASSY QUITO

C O N F I D E N T I A L SECTION 1 OF 5 BRASILIA 6073

E.O. 11652: GDS
TAGS: EGEN, EAID, XM
SUBJECT: GOVERNMENT-WIDE DEVELOPMENT COOPERATION STRATEGY FOR MIDDLE-
INCOME COUNTRIES

REF: (A) STATE 135009; (B) BRASILIA A-32, JUNE 23, 1978

1. INTRODUCTION

OUR RESPONSE TO THE REQUEST FOR EMBASSY'S INPUT TO THE
WORK OF THE DEVELOPMENT COORDINATING COMMITTEE IS KEYED TO
THE TERM "GOVERNMENT-WIDE STRATEGY" FOR FUTURE ECONOMIC
COOPERATION WITH "MIDDLE-INCOME COUNTRIES" OR AS THE EMBASSY
PREFERS, IN THE CASE OF BRAZIL AT LEAST, "EMERGING INDUSTRIAL
COUNTRIES". WE THEREFORE CONSIDER THE TOTAL RESOURCE FLOW
FROM PUBLIC AND PRIVATE SOURCES, BOTH MULTILATERAL AS WELL
AS BILATERAL COOPERATION, AND THE ROLE OF OTHER US GOVERN-
MENT DEPARTMENTS BESIDES STATE AND AID. WE USE THE TERM
ECONOMIC COOPERATION IN A BROAD SENSE AS OPPOSED TO
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BRASIL 06073 01 OF 05 041036Z

THE COMMON USAGE OF "COOPERATION" TO REFER TO AN AID
RELATIONSHIP. IN THIS FRAMEWORK, WE DISCUSS THE
POSSIBILITIES FOR FUTURE COOPERATION IN THE LIGHT OF
BRAZIL'S PARTICULAR PROBLEMS AND NEEDS AND RELATE
THEM TO LONGER-TERM OBJECTIVES OF THE UNITED STATES
IN THE CONDUCT OF OUR RELATIONS WITH THIS COUNTRY.
THIS TELEGRAM HAS BEEN RECOMMENDED BY THE COUNTRY

TEAM.

2. OBJECTIVES OF POLICY

BRAZIL IS AN EMERGING INDUSTRIAL COUNTRY, APPARENTLY DESTINED TO PLAY AN INCREASINGLY IMPORTANT ROLE IN THE WORLD POLITICAL AND ECONOMIC SCENE. IT SHOULD BECOME AN IMPORTANT MARKET FOR US PRODUCTS AS WELL AS A SOURCE OF INDUSTRIAL RAW MATERIALS AND SEMI-FINISHED PRODUCTS. INTERPENETRATION OF THE US AND BRAZILIAN ECONOMIES SHOULD DEVELOP AS THE BRAZILIAN ECONOMY EVOLVES. AT THE SAME TIME, BRAZIL'S WEIGHT IN WORLD AFFAIRS WILL ALSO GROW WITH POTENTIAL BENEFITS OR DAMAGE TO US ECONOMIC AND POLITICAL INTERESTS. THIS GENERALLY FAVORABLE TREND IS NOT LIKELY TO BE WITHOUT SETBACKS. THE US WILL NEED TO RETAIN AND ENHANCE POSITIONS OF INFLUENCE ON BRAZILIAN POLICIES AS THEY IMPACT INCREASINGLY ON OUR INTERESTS. THE PRIMARY RISKS WE FACE ARE FROM THE GROWTH OF BRAZILIAN NATIONALISM AND PROTECTIONISM, "DIRIGISTIC" TENDENCIES IN ECONOMIC POLICY, AND AUTHORITARIAN TENDENCIES ON ECONOMIC AND SOCIAL CRISES WHICH SEEM INEVITABLE GIVEN THE SHORT-RUN VULNERABILITIES OF THE ECONOMY AND THE INCREASING DESPARITY IN INCOME DISTRIBUTION (DISCUSSED BELOW). WE SHALL THEREFORE NEED TO DEVELOP A GOVERNMENT-WIDE CONSCIOUSNESS OF THE FUTURE STAKES IN THE US-BRAZIL RELATIONSHIP AND A DEDICATION TO

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 BRASIL 06073 01 OF 05 041036Z

SUSTAINED SUPPORT FOR EFFORTS TO STRENGTHEN OUR INFLUENCE ON THE EVOLUTION OF THE BRAZILIAN STATE IN THE DIRECTION OF AN ADVANCED INDUSTRIAL DEMOCRACY WITH A LARGE, VITAL PRIVATE SECTOR.

3. METHODS

THE BEST WAY TO PURSUE OUR OBJECTIVES IN BRAZIL IS TO MULTIPLY THE POINTS OF CONTACT IN AREAS OF MUTUAL CONCERN AND TO BROADEN AND DEEPEN THESE CONTACTS AT EVERY OPPORTUNITY. THIS HAS BECOME MORE IMPORTANT RECENTLY WITH THE TERMINATION OF THE AID AND MILITARY PROGRAMS AND THUS THE BROAD CONTACTS THEY AFFORDED ESPECIALLY THROUGH TRAINING PROGRAMS.

4. A GOOD START IN THE RIGHT DIRECTION HAS BEEN MADE WITH THE ESTABLISHMENT OF SEVERAL BILATERAL COMMITTEES UNDER THE CONSULTATIVE ARRANGEMENTS WITH BRAZIL. THESE

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 BRASIL 06073 02 OF 05 031510Z
ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 DOE-15 SOE-02 AGRE-00 /110 W
-----074898 041044Z /11

P 031240Z AUG 78
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC PRIORITY 8516
INFO AMEMBASSY BOGOTA
AMEMBASSY GUATEMALA
AMEMBASSY KINGSTON
AMEMBASSY LIMA
AMEMBASSY MEXICO
AMEMBASSY QUITO

C O N F I D E N T I A L SECTION 2 OF 5 BRASILIA 6073

DEAL WITH ENERGY TECHNOLOGY, TRADE, AGRICULTURE, AND
SCIENTIFIC AND TECHNOLOGICAL COOPERATION. A SEPARATE
CONSULTATIVE ARRANGEMENT, NOT UNDER THE MEMORANDUM
OF UNDERSTANDING, BRINGS TOGETHER FREQUENTLY REPRESENTATIVES
OF THE US TREASURY AND BRAZIL'S MINISTRY OF FINANCE.

5. WE BELIEVE THESE COMMITTEES, OR SUB-GROUPS AS
THEY ARE CALLED, COULD BECOME A PRIMARY VEHICLE FOR
PROVIDING APPROPRIATE TECHNICAL ASSISTANCE TO BRAZIL.
THESE GROUPS ARE IN THE BEST POSITION TO OVERCOME
BRAZILIAN SENSITIVITIES ABOUT NORTH AMERICAN PATER-
NALISM AND WE THINK BRAZIL'S RECEPTIVITY TO WHAT
COULD BE PERCEIVED AS A "TRANSFER OF TECHNOLOGY" IS
VERY GOOD.

6. FUNDING FOR ACTIVITIES WITHIN THESE GROUPS COULD
COME FROM THE BUDGETS OF INDIVIDUAL DEPARTMENTS, FROM
APPROPRIATED AID FUNDS (NOT UNDER A COUNTRY LINE ITEM)
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BRASIL 06073 02 OF 05 031510Z

AND POSSIBLY ALSO FROM THE PRIVATE SECTOR. IT WOULD
BE HELPFUL, FOR EXAMPLE, IF BRAZILIAN PARTICIPATION
IN ACTIVITIES GENERATED BY THE SUB-GROUPS COULD BE
FINANCED BY US SOURCES. SOME INCIDENTAL COMMERCIAL

BENEFITS MIGHT ALSO FLOW FROM THESE EXCHANGES BUT WOULD NOT BE AN AIM OF THE EXERCISE. AN INTERAGENCY PLANNING GROUP IN WASHINGTON TO CONSIDER HOW BEST TO PROVIDE TECHNICAL ASSISTANCE THROUGH THE CONSULTATIVE ARRANGEMENT COULD ALSO BE USEFUL IF OPERATED WITHOUT PUBLICITY AND IF THE EMBASSY'S INPUT COULD ALSO BE CONSIDERED.

7. A SECOND AREA WHERE US INFLUENCE COULD AFFECT BRAZILIAN DEVELOPMENT CONCERNS THE INTERNATIONAL FINANCIAL INSTITUTIONS (IFI). THE PROBLEM OF DISPARITIES IN INCOME DISTRIBUTION WAS DISCUSSED IN DETAIL IN THE EMBASSY'S A-32 OF JUNE 23, 1978. NOT ONLY IS INCOME DISTRIBUTION INCREASINGLY SKEWED, BUT THE GREAT MASS OF POVERTY IS GEOGRAPHICALLY DISTINCT, I.E., IN THE NORTHEAST (SEE BELOW). THE BEST SOURCE OF FUNDING FOR ECONOMIC DEVELOPMENT OF THE NORTHEAST-- OUTSIDE THE BRAZILIAN GOVERNMENT-- IS THE WORLD BANK WHICH ALREADY HAS A NUMBER OF PROJECTS IN THE AREA. CONTINUED SUBSTANTIAL LENDING BY THE WORLD BANK SHOULD BE SUPPORTED BY THE US.

8. IN THE INTEREST OF IMPROVING THE STRUCTURE OF BRAZIL'S FOREIGN DEBT AS WELL AS FURTHERING NORTHEAST DEVELOPMENT, THE US SHOULD ALSO CONTINUE TO SUPPORT LARGE-SCALE USE OF IDB RESOURCES IN BRAZIL, WITH PARTICULAR EMPHASIS ON PROJECTS DESIGNED TO REACH THE POOR. IT WOULD BE PERFECTLY CONSISTENT WITH OUR DESIRE TO SEE IDB FUNDS USED FOR THE POORER COUNTRIES TO SEE
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 BRASIL 06073 02 OF 05 031510Z

THEM APPLIED IN A GEOGRAPHIC AREA CHARACTERIZED BY POVERTY EQUAL TO THAT IN THE POORER LATIN AMERICAN COUNTRIES. AN ARGUMENT COULD EVEN BE MADE FAVORING BRAZILIAN ACCESS TO THE IDB'S FUND FOR SPECIAL OPERATIONS FOR PROJECTS IN THE NORTHEAST. BRAZIL MIGHT THEN BE PERSUADED TO MAKE ITS CONTRIBUTION TO THE IDB FULLY CONVERTIBLE AND PERHAPS EVEN INCREASE ITS CAPITAL CONTRIBUTION. ANOTHER POSSIBLE SOURCE OF CONCESSIONAL AID FOR THE NORTHEAST IS THE NEW INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT. INDIRECTLY, THE US MIGHT INFLUENCE IFAD TO CONSIDER LOOKING AT POSSIBLE PROJECTS IN THE NORTHEAST.

9. FINALLY, CURRENT AID POLICY WHICH PERMITS FINANCING OF REGIONAL PROJECTS OF WHICH BRAZIL IS A PART HAS NOT TAKEN ADVANTAGE OF ALL OPPORTUNITIES. THE EMBASSY IS PREPARED TO MAKE SPECIFIC RECOMMENDATIONS FOR REGIONAL COOPERATION IN THE FIELD OF AGRICULTURE AND TECHNICAL TRAINING, FORESTRY, RURAL HEALTH AND SOCIAL SERVICE

DELIVERY SYSTEMS, RESEARCH IN ENTOMOLOGY, PLANT PATHOLOGY, AND OTHER PROBLEMS OF TROPICAL AGRICULTURE. SUCH ACTIVITIES COULD WELL LEAD TO THE DESIGN OF CAPITAL PROJECTS SUITABLE FOR IFI FUNDING.

10. FINALLY, CONTINUED BRAZILIAN ACCESS TO THE US CAPITAL MARKET WILL BE ONE OF THE KEY FACTORS CONTRIBUTING TO ECONOMIC GROWTH. THE GROWING NETWORK OF US FINANCIAL AND BANKING ACTIVITIES IN BRAZIL PROVIDES US WITH OPPORTUNITIES FOR INVOLVEMENT OVER THE LONG RUN, BUT THIS IS A DELICATE AREA DEMANDING GREAT DISCRETION.

11. ON THE POLITICAL PLANE, WE BELIEVE THAT THE RESUMPTION OF EXPANDED TECHNICAL ASSISTANCE, IF IT COULD BE SUCCESSFULLY CARRIED OUT, WOULD BE USEFUL AND BENEFICIAL. THE MASSIVE AID RELATIONSHIP OF THE

CONFIDENTIAL

PAGE 04 BRASIL 06073 02 OF 05 031510Z

SIXTIES AND EARLY SEVENTIES, PHASED OUT BY THE USG SINCE 1973, HAD COME TO BE SEEN BY MANY AS PATERNALISTIC, INCONGRUENT WITH BRAZIL'S RAPID GROWTH AND STAGE OF DEVELOPMENT AND THE GROWING DIVERSIFICATION OF ITS POLITICAL AND ECONOMIC TIES. DESPITE THIS ATTITUDE, THIS PROGRAM WAS THE CATALYST FOR BRAZIL'S ECONOMIC PROGRESS.

12. THE POLITICAL PROBLEM FACING THE US IN BRAZIL TODAY IS, OF COURSE, VERY DIFFERENT FROM THAT OF THE SIXTIES AND EARLY SEVENTIES. BRAZIL'S SELF-CONFIDENCE IS MUCH GREATER TODAY AND, IN ANY EVENT, THE KIND OF COOPERATIVE EFFORT WE COULD SEE DEVELOP OVER TIME WOULD BE QUITE MODEST BY PAST STANDARDS, UNDER THE BEST OF CIRCUMSTANCES. TRADITIONAL TIES WITH THE US HAVE BEEN SUPPLEMENTED BY NEW ARRANGEMENTS WITH OTHER GOVERNMENTS, WHICH HAVE CONTINUED CONCESSIONAL AID IN THE TECHNICAL ASSISTANCE FIELD (SUCH AS THE

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 BRASIL 06073 03 OF 05 041610Z
ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 DOE-15 SOE-02 AGRE-00 /110 W
-----096421 041924Z /45 11

P 031240Z AUG 78
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC PRIORITY 8517
INFO AMEMBASSY BOGOTA
AMEMBASSY GUATEMALA
AMEMBASSY KINGSTON
AMEMBASSY LIMA
AMEMBASSY MEXICO
AMEMBASSY QUITO

C O N F I D E N T I A L SECTION 3 OF 5 BRASILIA 6073

C O R R E C T E D C O P Y (SECTION DATA OMMITTED)

FRG), OR ARE SPONSORING NEW EXPERIMENTAL JOINT VENTURES BY
THEIR PRIVATE SECTOR COMPANIES WITH A HIGH DEVELOPMENTAL CONTENT
(SUCH AS THE BRAZIL-JAPANESE CERRADOS PROJECT). THE EUROPEANS
AND JAPAN UNDOUBTEDLY SEE THESE TECHNICAL ASSISTANCE PROGRAMS
AS PART OF THEIR OVERALL COMMERCIAL PROMOTION EFFORT.

13. AT THE SAMETIME, TO BRAZILIAN EYES, WE HAVE UNDOUBTEDLY
CONVEYED AT TIMES THE IMPRESSION OF A LCK OF SYMPATHY AND INTEREST
FOR BRAZIL'S SEVERE REMAINING DEVELOPMENTAL PROBLEMS--AN IMPRESSION
WHICH HAS BEEN REINFORCED BY THE FREQUENT, PERHAPS
INEVITABLE, CONFLICTS OVER TRADE ISSUES (SEE ALSO BRASILIA (77)
10418). IT IS NOTEWORTHY, IN THIS CONNECTION, THAT ONE OF THE
FEW TANGIBLE RESULTS OF THE GEISEL VISIT TO BONN WAS A CONCESSIONAL
LOAN BY THE GERMAN AID AGENCY, CONTRARY TO THE FRG'S ESTABLISHED
AID POLICY FOR BRAZIL. FROM TIME TO TIME, THERE HAVE BEEN OTHER
MUTED REFERENCES FROM HIGH-LEVEL BRAZILIAN SOURCES SUGGESTING
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BRASIL 06073 03 OF 05 041610Z

A CONTINUING BRAZILIAN INTEREST IN BILATERAL US ASSISTANCE.

14. TACTICAL CONSIDERATIONS
THE ABOVE DISCUSSION HAS OMITTED CONSIDERATION OF THE HUMAN
RIGHTS QUESTION BECAUSE ALL OF THE APPROACHES OUTLINED
AVOID THE NECESSITY FOR HUMAN RIGHTS REPORTING. WERE WE TO CONSIDER
A NEW TRADITIONAL AID PROGRAM, A HUMAN RIGHTS REPORT WOULD BE
NECESSARY AND WOULD LEAD TO AN AUTOMATIC REJECTION OF BILATERAL
ASSISTANCE BY BRAZIL. WE ALSO DOUBT AHT A NEW BILATERAL COUNTRY
PROGRAM WOULD BE ACCEPTABLE TO THE CONGRESS. BRAZILIAN RECEPTIVITY
TO NEW APPROACHES WILL DEPEND ON HOW THEY PERCEIVE OUT INTENTIONS.
THE BRAZILIANS WILL BE AWARE OF AND SENSITIVE TO WHATEVER

WE SAY IN PUBLIC IN WASHINGTON ABOUT A NEW APPROACH TO ASSISTING THE EMERGINT INDUSTRIAL COUNTRIES. FOR THIS REASON, IT WOULD BE BETTER TO AVOID "LAUNCHING" BOLD NEW PROGRAMS WITH A LOT OF PUBLICITY.

15. BRAZIL'S DEVELOPMENT PROBLEMS SUMMARIZED
TO HELP THE DEVELOPMENT COORDINATING COMMITTEE WITH ITS DELIBERATIONS WE PROVIDE BELOW A RATHER DETAILED SUMMARY OF THE PRINCIPAL PROBLEMS AFFECTING THE FUTURE OF BRAZIL'S DEVELOPMENT. WE DO NOT MEAN TO IMPLY THAT WE CAN OR SHOULD ADDRESS ALL OF THESE PROBLEMS.

16. IN A RECENT INTERVIEW, BRAZIL WAS DESCRIBED BY FOREIGN MINISTER SILVEIRA AS A COUNTRY WITH SPECIAL HANDICAPS (BRASILIA 2341). IN THIS STATEMENT, SILVEIRA (DEPARTING FROM THE STANDARD POSITION) AVOIDED ATTRIBUTING LDC STATUS TO BRAZIL BUT AT THE SAME TIME REJECTED THE OFTEN-STATED HYPOTHESIS THAT BRAZIL IS A NATION ON THE THRESHOLD OF BECOMING AN INDUSTRIALIZED POWER. THE IMPLIED UNIQUE STATUS OF BRAZIL IS QUITE APPROPRIATE. BRAZIL HAS MADE GREAT PROGRESS OVER THE PAST TEN YEARS; IT HAS BUILD A SPHISTICATED INDUSTRIAL BASE
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 BRASIL 06073 03 OF 05 041610Z

IN ITS SOUTHERN STATES, HAS BECOME A LEADING AGRICULTURAL EXPORTER BASED ON PRODUCTION IN THE SAME AREA, AND HAS BROUGHT IT AVERAGE PER-CPAITA INCOME LEVEL TO MORE THAN \$1,400.00 BUT WHILE IN TERMS OF PER-CAPITA INCOME, BRAZIL DURING THE LAST TEN YEARS OF RAPID GROWTH HAS PULLED EVEN WITH ARGENTIAN, IT REMAINS SUBSTANTIAALLY BELOW, FOR EXAMPLE, THE SOUTHERN CONE COUNTRIES IN TERMS OF MANY OTHER SOCIO-ECONOMIC INDICATORS (BRASILIA 3440). IT IS, OF COURSE, WAY BEHIND THE US WITH OUR PER-CAPTIA INCOME OF \$9,000.00.

17. STATED IN THE BRAODEST TERMS, BRAZIL'S CENTRAL DEVELOPMENT PROBLEM IS HOW TO MAINTAIN HIGH RATES OF GROWTH AND CAPITAL FORMATION, WHILE ALSO IMPROVING EQUITY FACTORS SUCH AS INCOME DISTRIBUTION, IN THE FACE OF CONSTRAINTS IMPOSED BY THE BALANCE OF PAYMENTS AND THE NEED TO REDUCE INFLATION. AS IN THE UNITED STATES AND OTHER COUNTRIES, THE POLITICS OF ACHIEVING EQUITY DEPENDS MORE ON RELATIVE LEVEL OF INCOME AND THE RATE AT WHICH THAT IS EXPANDING THAN ON ABSOLUTE LEVELS. IMPROVEMENT IN THE WORLD ECONOMIC

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 BRASIL 06073 04 OF 05 041037Z
ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 DOE-15 SOE-02 AGRE-00 /110 W
-----093062 041049Z /11

P 031240Z AUG 78
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC PRIORITY 8518
INFO AMEMBASSY BOGOTA
AMEMBASSY GUATEMALA
AMEMBASSY KINGSTON
AMEMBASSY LIMA
AMEMBASSY MEXICO
AMEMBASSY QUITO

C O N F I D E N T I A L SECTION 4 OF 5 BRASILIA 6073

SITUATION IS THEREFORE CRUCIAL TO BRZIL'S EFFORTS.

18. BRAZIL'S MAJOR PROBLEMS, AT ITS PRESENT STAGE
OF DEVELOPMENT, MAY BE SUMMMED UP AS FOLLOWS:

A) ON THE AVERAGE, EDUCATION AND SOCIAL DEVELOP-
MENT REMAIN AT LOW LEVELS; ALTHOUGH THE ADMINISTRATIONS
SINCE 1964 HAVE MADE GREAT EFFORTS TO EXTEND EDUCATION
AND TRAINING, RATES OF ILLITERACY AND SEMI-LITERACY
REMAIN HIGH IN TERMS OF NATIONAL AVERAGES. FURTHERMORE,
THERE IS A SERIOUS DEFICIENCY AT THE SECONDARY
LEVEL. MOST OF THE NATION'S LEADERSHIP RECONGNIZE THE LOVW
LEVEL OF EDUCATION AND TRAINING AS THE COUNTRY'S NUMBER
ONE PROBLEM.

B) DESPITE SOME MARGINAL LOWERING OF THE RATE
OF POPULATION GROWTH, THE RAPID INCREASE IN POPULATION
AND THE LABOR FORCE MEANS ONE MILLION NEW ENTTRANTS
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BRASIL 06073 04 OF 05 041037Z

INTO THE LABOR MARKET ANNUALLY. THIS INFLOW OF JOB
SEEKERS REQUIRES THAT BRAZIL SUSTAIN A RELATIVELY
HIGH AVERAGE GROWTH RATE--7 TO 8 PERCENT ANNUALLY
OVER THE NEXT DECADE--TO ABSORB NEW WORKERS AND CON-
TINUE THE IMPROVEMENT IN SOCIAL CONDITIONS AND LIVING
STANDARDS.

C) BRAZIL'S ECONOMIC DEVELOPMENT WILL FOR SOME TIME BE CONSTRAINED BY ITS EXTERNAL DEBT. SINCE 1974 BRAZIL'S DEBT HAS INCREASED RAPIDLY; AS A RESULT, BRAZIL'S BALANCE OF PAYMENTS HAS INCURRED A SUBSTANTIAL STRUCTURAL DEFICIT ON SERVICES, RESULTING FROM INTEREST PAYMENTS ASSOCIATED WITH THAT DEBT (BRASILIA 2137). WHILE BRAZIL'S CREDIT RATING REMAINS EXCELLENT, THE COUNTRY'S LEADERSHIP--RIGHTLY, IN OUR VIEW--BELIEVES THAT IT MUST STABILIZE AND GRADUALLY IMPROVE THE COUNTRY'S EXTERNAL DEBT RATIOS. BRAZIL CAN BE EXPECTED TO EMPHASIZE ITS EXPORT PROGRAM. UNTIL BRAZIL CAN ACHIEVE AT LEAST A \$1.5 BILLION TRADE SURPLUS, THE GOVERNMENT PLANS TO HOLD ECONOMIC GROWTH BELOW THE SOCIALLY DESIRABLE LEVEL, IN A 5 TO 6 PERCENT RANGE. ACCORDING TO SOME ANALYSTS, THIS MAY ENTAIL HOLDING DOWN THE GROWTH RATE FOR THE REST OF THIS DECADE (BRASILIA 3921). EFFORTS TO IMPROVE THE DEBT PROFILE ARE HAVING SUCCESS, BUT THESE EFFORTS WILL ONLY PROVIDE MARGINAL RELIEF FROM THIS BALANCE-OF-PAYMENT CONSTRAINT (SEE ALSO BRASILIA 4881).

D) BRAZIL FACES AN INCOME DISTRIBUTION PROBLEM PERHAPS EVEN MORE ACUTE THAN THOSE OF OTHER LATIN AMERICAN NATIONS (SEE REF B). THE PORTION OF NATIONAL INCOME ACCRUING TO THE BOTTOM 50 PERCENT DECLINED FROM 17.7 PERCENT IN 1960 TO 11.8 PERCENT IN 1976, WHILE
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 BRASIL 06073 04 OF 05 041037Z

THE RICHEST FIVE PERCENT INCREASED ITS SHARE FROM 27.7 PERCENT TO 39 PERCENT. THE TENTATIVE AND LONG OVERDUE ATTEMPTS BY THE GEISEL ADMINISTRATION TO ADDRESS THIS PROBLEM WERE IN LARGE PART VITIATED BY THE RAPID INFLATION AND THE BALANCE-OF-PAYMENTS CONSTRAINTS 1974-78 WHICH WERE IN PART LEGACIES OF ECONOMIC POLICIES ADOPTED PRIOR TO THE 1973 OIL CRISIS AND NOT MODIFIED SOON ENOUGH THEREAFTER. ALTHOUGH THE CURRENT ADMINISTRATION INSISTS THAT POLICIES AIMED AT PRICE STABILIZATION AND AN EXTERNAL BALANCE MUST SHOW SIGNS OF SUCCESS BEFORE THE INCOME DISTRIBUTION PROBLEM CAN BE ADDRESSED IN A MAJOR WAY, THERE IS GROWING CONVICTION THAT THE PROBLEM MUST BE AND WILL BE FACED BY THE NEXT ADMINISTRATION.

E) THERE ARE SEVERAL REGIONS IN BRAZIL WHICH ARE GREATLY UNDERDEVELOPED IN CONTRAST TO THE REST OF BRAZIL. THE MOST PRONOUNCED IS THE BRAZILIAN NORTH-EAST WHICH CONSTITUTES ONE OF THE WORLD'S LARGEST AREAS OF CONCENTRATED POVERTY, ESPECIALLY IN THE RURAL SECTORS. THE NORTHEAST, WITH PER-CAPITA INCOME OF \$500 TO \$700, IS LARGER GEORGRAPHICALLY AND MORE

POPULOUS THAN ANY COUNTRY IN LATIN AMERICA EXCEPT ARGENTINA AND MEXICO. SMALL FARMERS SUFFER FROM THE LACK OF LAND TITLES, CREDIT, STORAGE FACILITIES AND INEXPENSIVE, RELIABLE TRANSPORTATION TO MARKETS; THESE FACTORS HAVE AGGRAVATED GENERALLY LOW PRODUCTIVITY

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 BRASIL 06073 05 OF 05 031515Z
ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 DOE-15 SOE-02 AGRE-00 /110 W
-----075010 041044Z /11

P 031240Z AUG 78
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC PRIORITY 8519
INFO AMEMBASSY BOGOTA
AMEMBASSY GUATEMALA
AMEMBASSY KINGSTON
AMEMBASSY LIMA
AMEMBASSY MEXICO
AMEMBASSY QUITO

C O N F I D E N T I A L SECTION 5 OF 5 BRASILIA 6073

OF CERTAIN STAPLE CROPS PRODUCED BY SUCH FARMERS (E.G., BEANS, MANIOC, GARDEN VEGETABLES). BIRTH RATES AND INFANT MORTALITY ARE HIGH AND VARIOUS FORMS OF MALNUTRITION (IODINE, IRON, VITAMIN A AND PROTEIN DEFICIENCIES) ARE ENDEMIC. SINCE THE EARLY 1960'S VAST SUMS HAVE BEEN INVESTED IN THE NORTHEAST, PRINCIPALLY IN INFRASTRUCTURE AND INDUSTRIAL INCENTIVES BUT PERVASIVE POVERTY STILL EXISTS, ALTHOUGH THERE MAY HAVE BEEN SOME AMELIORATION OF MISERY. SOME IMAGINATIVE PILOT PROJECTS IN SOCIAL DEVELOPMENT HAVE BEEN UNDERTAKEN RECENTLY BUT BRAZIL'S OVERALL ECONOMIC SITUATION HAS HAMPERED THEIR EXPANSION.

F) BRAZIL ALSO FACES PROBLEMS WHICH ARISE FROM THE SUCCESSFUL IMPLEMENTATION OF INDUSTRIAL DEVELOPMENT PROGRAMS. RAPID DEVELOPMENT HAS LED TO URBAN CONGESTION AND WIDESPREAD WATER AND AIR POLLUTION IN MANY METROPOLITAN AREAS OF BRAZIL, PARTICULARLY IN RIO DE JANEIRO AND SAO PAULO. PUBLIC SERVICES IN METROPOLITAN AREAS THROUGHOUT THE COUNTRY HAVE BEEN OVERTAXED BY THE INFLOW OF RURAL MIGRANTS AND THE HIGH BIRTH RATE OF THE

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BRASIL 06073 05 OF 05 031515Z

URBAN POOR, AND THIS PROBLEM WILL CONTINUE TO GROW UNTIL SOMETHING IS DONE TO IMPROVE CONDITIONS IN THE AREAS FROM WHICH THESE MIGRANTS COME. INDUSTRIALIZATION HAS ALSO LED TO A RAPID GROWTH IN ENERGY DEMAND, INCREASING BRAZIL'S VULNERABILITY TO THE UNCERTAINTIES OF WORLD OIL SUPPLIES. THE DEMAND FOR SKILLED WORKERS AND TRAINED MANAGEMENT PERSONNEL HAS OUTSTRIPPED BRAZILIAN ABILITY TO PRODUCE THEM, LEADING TO CONTINUED HIGH DEMAND FOR GRADUATE TRAINING OUTSIDE BRAZIL IN THE MAJOR DEVELOPMENT AND TECHNOLOGY SECTORS IN ORDER TO IMPROVE AND EXPAND BRAZIL'S EDUCATIONAL AND DEVELOPMENTAL INSTITUTIONS.

19. OTHER BILATERAL DONORS: MOST EUROPEAN NATIONS, PLUS JAPAN AND CANADA, MAINTAIN MODES, BUT ACTIVE, BILATERAL AID PROGRAMS IN BRAZIL. IN ADDITION TO THE 25-MILLION DOLLAR LOAN CONSUMMATED DURING THE GEISEL VISIT TO BONN, THE FRG MAINTAINS A 7-8 MILLION DOLLAR PROGRAM OF TECHNICAL ASSISTANCE, TRAINING OF BRAZILIAN PERSONNEL IN GERMANY, AND UNIVERSITY EXCHANGE. THE CANADIAN INTERNATIONAL DEVELOPMENT AGENCY (CIDA) IN A GRANT PROGRAM ON THE ORDER OF 3-4 MILLION DOLLARS, PROVIDES ASSISTANCE FOR SMALL SOCIALLY ORIENTED PROJECTS. THE BRITISH PROVIDE DIRECT BILATERAL TECHNICAL ASSISTANCE IN ADDITION TO SCHOLARSHIP GRANTS AND VISITING PROFESSOR PROGRAMS OPERATED BY THE BRITISH COUNCIL. THE FRENCH AND ITALIANS ALSO MAINTAIN TECHNICAL ASSISTANCE PROGRAMS AND THE JAPANESE OFTEN INCLUDE TECHNICAL ASSISTANCE AND TRAINING PROGRAMS IN THEIR COMMERCIAL VENTURES. ONE OF THE GOB'S COROLLARY CONCERNS ABOUT THE USAID PHASEOUT WAS THAT OTHER BILATERAL DONORS MIGHT ALSO REASSESS THEIR PROGRAMS IN BRAZIL. INDEED, THIS SEEMS TO HAVE OCCURRED WITH CANADA AND THE FRG; SOME THREE YEARS AGO, CANADA BEGAN TO RESTRICT NEW PROJECT ACTIVITY TO THE NORTHEAST AND THE FRG DECIDED TO HALT CAPITAL RESOURCE TRANSFERS AND MAINTAIN ONLY ITS TECHNICAL ASSISTANCE AND TRAINING PROGRAMS. THE \$25 MILLION LOAN BY THE FRG ANNOUNCED DURING THE GEISEL

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 BRASIL 06073 05 OF 05 031515Z

VISIT TO WEST GERMANY IS A DEPARTURE FROM THIS POLICY AND MAY HAVE RESULTED FROM GOB PRESSURES FOR TANGIBLE SIGNS OF SUPPORT. SAYRE

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC COOPERATION, POLICIES
Control Number: n/a
Copy: SINGLE
Draft Date: 03 aug 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978BRASIL06073
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780320-1202
Format: TEL
From: BRASILIA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780899/aaaadfjo.tel
Line Count: 596
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 5004366a-c288-dd11-92da-001cc4696bcc
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 11
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 78 STATE 135009, 78 BRASILIA A-32
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 24 jun 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1840675
Secure: OPEN
Status: NATIVE
Subject: GOVERNMENT-WIDE DEVELOPMENT COOPERATION STRATEGY FOR MIDDLE- INCOME COUNTRIES
TAGS: EGEN, EAID, XM
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/5004366a-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014